

# FISCAL NOTE

**Bill #:** HB618

**Title:** Use tobacco settlement funds for income tax credits for health insurance

**Primary**

**Sponsor:** Joe Balyeat

**Status:** Introduced

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002</u></b>	<b><u>FY2003</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$20,241	\$0
Other (Tobacco Trust Fund)	\$877,066	\$1,771,673
<b>Net Impact on General Fund Balance:</b>	<b>\$(20,241)</b>	<b>\$0</b>

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<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

1. This bill applies retroactively to tax years beginning after December 31, 2000 (TY2001); there will be a revenue impact in fiscal 2002 and fiscal 2003 from this bill.
2. This bill provides a credit against individual income taxes equal to 30% of any increase in expenditures for certain medical insurance premiums above the amount expended in tax year 2000. The expenditures must be for coverage of the taxpayer, the taxpayer's spouse, or the taxpayer's dependents.
3. The credit does not apply to expenditures for medical insurance premiums paid by a taxpayer who is a participant in an employer-sponsored health insurance plan for which the employer pays any part of the premium. Otherwise, the credit would apply to taxpayers who increase current expenditures for medical insurance premiums; to taxpayers who purchase medical insurance for the first time; and to taxpayers who may opt to discontinue their current employer-sponsored plan and purchase private health insurance.
4. The credit provided for in this bill is a *refundable credit*; the taxpayer would be entitled to receive a payment from the state in the amount of 30% of any increase in medical insurance premium payments above tax year

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2000 expenditures regardless of whether the taxpayer has a tax liability. Taxpayers using this credit could not claim any other deduction or exclusion related to the insurance premium expenditure.

5. Under current law, taxpayers are allowed to deduct 100% of any expenditure for medical insurance premiums. This deduction is allowed only for the type of insurance premiums expenditures that also would qualify for the credit under this bill. Beginning with tax year 2001, any increase in expenditures that otherwise would have qualified for this deduction under current law, will instead be used as the credit provided for in this bill. The following table shows the fiscal impact of converting these increases in expenditures from a deduction to a credit:

Tax Credit Associated with  
Persons Currently Taking the Deduction for  
Medical Insurance Premiums

TY	FY	Actual/Forecast Medical Insurance Premium Deduction	Change From TY2000	Credit (30% of Change)	Reduced Deduction Offset	Net GF Impact
A 1998	1999	180,956,416	n.a.	n.a.	n.a.	n.a.
A 1999	2000	183,340,843	n.a.	n.a.	n.a.	n.a.
F 2000	2001	187,007,660	0	n.a.	n.a.	n.a.
F 2001	2002	190,747,813	3,740,153	(1,122,046)	244,980	(877,066)
F 2002	2003	194,562,769	7,555,109	(2,266,533)	494,860	(1,771,673)
F 2003	2004	198,454,025	11,446,365	(3,433,909)	749,737	(2,684,173)
F 2004	2005	202,423,105	15,415,445	(4,624,634)	1,009,712	(3,614,922)

The current law deduction is forecast to grow by 2% per year. The above table shows the growth in the total deduction under current law, the increase in the total deduction above the tax year 2000 level; and the amount of credit that would be claimed, which is equal to 30% of the increase above the tax year 2000 level. Because these expenditures could not be claimed as a deduction, there is an offsetting increase in revenue equal to 6.55% of the change. The last column in the table shows the net impact on the state general fund from this bill, for those taxpayers who would be using the current law medical insurance premium deduction.

6. The fiscal impact in the above table reflects the minimal fiscal impact of this bill. Currently, there are 882,779 people in Montana. Of these, 19%, or 167,728 have no medical insurance coverage. On average there are 2.5 people per household in Montana; which when applied to the number of people with no medical insurance translates to approximately 67,000 households without insurance. If the incentive provided for in the bill allowed 1% of these households to purchase medical insurance at an average cost of \$4,200 per year, the annual credit taken by taxpayers would increase by \$844,200 (67,000 X 1% X \$4,200 X 30% = \$844,200). If 2% of these households purchase insurance, this impact would double to \$1,688,400. The department has no means of knowing precisely how many currently uninsured households would find it economically viable to purchase medical insurance because of the subsidy provided for in this bill.
7. The bill provides for a statutory appropriation from the tobacco settlement trust to pay for any credits that may be taken under the provisions of this bill. This would require a vote of two-thirds of the members of each house of the legislature for passage.
8. Administrative expenses increase by \$20,241 in fiscal year 2002 to provide for programming and form changes to accommodate a new line on the individual income tax form for this tax credit.

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FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$20,241	\$0
Transfers	\$877,066	\$1,771,673
TOTAL		
<u>Funding:</u>		
General Fund (01)	\$20,241	\$0
Other (Tobacco Trust Fund)	\$877,066	\$1,771,673
TOTAL		
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$(20,241)	\$0
Other (Tobacco Trust Fund)	\$(877,066)	\$(1,771,673)

LONG-RANGE IMPACTS:

The amount of the credit taken will increase in each succeeding year, as the total amount of credit taken reflects increases in expenditures relative to tax year 2000. Revenue to the tobacco trust fund would decrease by \$6.3 million in the 2005 biennium. Again, this does not include any impact from households who may decide to purchase medical insurance who otherwise would not do so without the credit provided for in this bill.